HMRC - OT05400 - PRT: Valuation Of Non-Arm's Gas - Valuation Of Light Gases From 1 January 1994 - Swing

Although gas is increasingly sold on the basis of no swing and 100% take or pay it is not uncommon to find different provisions in longer term contracts. As the inclusion of swing gives the buyer greater flexibility we consider that a higher price should be paid for gas sold under a contract containing a provision for swing. The value of swing can, in theory, be determined in a number of ways, but the most common ways that LB Oil & Gas has seen are comparing the alternative costs of storage and the use of forward prices. The Transco storage booklet contains a computation of the cost of swing determined by comparison to the costs of using the Rough storage facilities.

Example:

The example below shows how published prices can be used to value swing. It is based on the assumption of sales of 500,000 therms a day, on the basis of 130% swing which will be fully utilised in the period January to March and the need to balance sales at 500,000 therms a day over the whole of the year. The prices are purely illustrative.

=

=

Value of 30% swing = £33.93m \ 500,000 Th\day\ 365 days = 18.592p\Th

Less

Cost of annual flat gas at 18p\Th

30% swing costs 0.592 p\Th

It can therefore be inferred that 10% swing costs 0.197 p\Th (that is, 0.592\3).

Previous page

Next page